

2007 Medicare Trustees Report:
Outlook Strong by Historical Standards,
but Republican Agenda Could Force Medicare Cuts
April 23, 2007

While President Bush has presided over an unprecedented drop in solvency and created a new measure designed to scare people into thinking that Medicare is unaffordable, Medicare remains strong. By historical standards, the Trust Fund will be solvent for as long or longer than 16 out of the last 36 reports in which projections were provided. But Republican efforts to privatize Medicare are taking their toll.

Current projections. According to the 2007 Medicare Trustees Report, under the intermediate assumptions, the Medicare Part A Trust Fund becomes insolvent in 2019. This is a one-year increase from last year's projection of 2018.

President Bush has taken Medicare in the wrong direction. Since the 2001 report, solvency projections have dropped by 16 years. While this date is not alarming by historical standards, the pattern stands in stark contrast with the increased solvency seen during the 1990s.

This year's report triggers Presidential proposals to cut Medicare. The 45 percent trigger is an arbitrary measure created by the MMA to cap Medicare's funding. Because this year's report contains the second warning that the projection is in sight, the President must send Congress legislation cutting Medicare in 2008, at which point it will get expedited consideration. President Bush proposed in his FY2007 budget to take this process further by requiring across-the-board Medicare cuts if Congress fails to act on his recommendations. Republicans want to end Medicare as we know it, and the 45 percent trigger lays the groundwork to do so.

Private plans cost more than traditional Medicare. According to MedPAC, Medicare private plans are paid *on average* 112 percent of the cost of traditional Medicare. In some areas, the payments are more than 150 percent the cost of traditional Medicare. CMS Chief Actuary Rick Foster confirmed in testimony before the Committee on Ways and Means (3/24/04) that there are *never* any savings under the current Medicare Advantage program. Eliminating these overpayments – as MedPAC recommends – would extend solvency of the Part A Trust Fund by two years and save \$54 billion over five years and \$149 billion over ten years.

Privatization reduces solvency and increases premiums. Because payments for private Medicare Advantage plans are drawn from both Parts A and B, the overpayments erode solvency, raise premiums for all beneficiaries and hasten the so-called 45% trigger. In addition, Medicare's administrative costs run far below those of private plans. Contrary to Republican rhetoric, competition is no silver bullet when it comes to meeting Medicare's fiscal challenges.

Lower Part D projections have little to do with "competition." There are a number of reasons for lower Part D expenditures, including new data indicating slower overall growth in drug spending in 2004 and 2005 – before Part D was implemented – which have then been used to adjust projections of future growth. Decreased participation estimates also lowered spending projections; the latest estimates predict that just 31 million beneficiaries will receive subsidies under Part D in 2007, compared to an estimate of 41 million when the law was enacted. Finally, while Republicans will claim that lower plan bids mean "competition is working," plans may be aggressively underbidding to gain market share and drive out other plans. If a few large plans succeed in consolidating the market, dramatic premium increases are likely.